


MADSEN
RED LAKE GOLD
MINES,

L I M I T E D

ANNUAL REPORT
1980

ANNUAL MEETING MAY 19, 1981



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MADSEN RED LAKE GOLD MINES, LIMITED

directors

PAUL H. McCLOSKEY <i>Mining Executive</i>	Toronto
HUGH H. MACKAY <i>Vice-President</i> Maritime Beverages Limited	Rothsay, N.B.
FOSTER W. HEWITT <i>Radio Executive</i>	Toronto
A. D. HELLENS <i>Mining Executive</i>	Toronto
R. DUNCAN McCLOSKEY <i>Mining Executive</i>	Toronto

officers

PAUL H. McCLOSKEY, <i>President</i>	Toronto
R. DUNCAN McCLOSKEY, <i>Executive Vice-President</i>	Toronto
FOSTER W. HEWITT, <i>Vice-President</i>	Toronto
S. CZARNECKI, <i>Secretary-Treasurer</i>	Toronto

MADSEN RED LAKE GOLD MINES, LIMITED

HEAD OFFICE 11 Adelaide St. W., Suite 800
Toronto, Canada M5H 1L9

TRANSFER AGENTS AND REGISTRARS

GUARANTY TRUST COMPANY OF CANADA
88 University Avenue, 5th floor, Toronto, Canada M5J 1T8
427 St. James Street West, Montreal, Canada
THE BANK OF NEW YORK 48 Wall Street, New York 10015, N.Y.

AUDITORS

JARRETT, GOOLD & ELLIOTT P.O. Box 164, 1 First Canadian Place
Toronto, Ontario M5X 1C7

LISTED

TORONTO STOCK EXCHANGE 234 Bay Street
Toronto, Canada M5J 1R1

DIRECTORS' REPORT

To The Shareholders:

Your Directors submit the 45th Annual Report which includes the Auditors' financial statement, covering the year ended December 31, 1980.

Mine Sale

During the year Madsen received final payment from Coopers & Lybrand Limited, Court appointed Receiver and Manager of Bulora Corporation Limited, for the Company's mine and all adjacent mining properties, mine buildings and mine equipment in the Red Lake area of Ontario. Madsen now has no further interest in its former producing mine in Red Lake, Ontario.

Financial Review

Net earnings were \$150,674 or \$.052 per share compared to \$676,415 with \$.247 per share in 1979.

Working capital at December 31, 1980, was \$2,628,401 compared to \$2,808,811 at December 31, 1979.

Oil and Gas Exploration and Development

Madsen continued its activity in the exploration and development of oil and gas in Western Canada during 1980. Revenue after production expenses and royalties was slightly less than \$80,000 in 1980 which was somewhat less than expected due to the shutting in of our producing wells for several months during the year. However, expectations are for revenue from operations to increase significantly in 1981.

Due to the negative effects of the recent Federal Energy Programme we expect to reduce spending in 1981 to a level that will only maintain our present properties. We will continue to review new oil and gas ventures especially those in the United States for future consideration.

In general it is expected that our oil and gas exploration and development activities will continue to have a negative effect on working capital in 1981.

Signalta Resources Limited Joint Venture

Madsen participated in drilling eleven additional wells resulting in five successful gas wells in Forestburg, Central Alberta. A gas plant was constructed during the year by the Joint Venture Group with Madsen's interest at 10.6%. The plant is expected to operate at approximately 4.5 mmcf/d for most of the year. Three wells are presently on stream and this number is expected to increase to six within several months. Madsen's 5% (approximately) APO interest in this producing field will provide a good cash flow for a minimum of fifteen years.

The Birch 11-12-50-11 W4M gas well (Madsen's interest 11.1111%) was shut in for a period of eight months during 1980 which was five months longer than anticipated. However, this well still produced 37.5% of cash flow from oil and gas properties and is expected to contribute significantly for a minimum of fifteen years.

During the year Madsen agreed to join a new joint venture oil exploration programme in Southeastern Alberta operated by Signalta Resources Limited. Madsen has agreed to pay 10% of the costs of this programme to earn a 7.5% interest. To date, the main thrust of the venture has been land purchases along with the drilling of two dry holes. Drilling of another six to eight wells is planned for 1981.

Zephyr Resources Joint Venture

Madsen has participated in the 1978, 1979 and 1980 Zephyr programmes.

The 1978 programme (Madsen's interest 2%) funded drilling of four additional wells in 1980 resulting in two potential gas wells in British Columbia and one potential oil well and one dry hole in Alberta. Fifteen oil wells and three gas wells were producing at year end providing some revenue. Overall the programme is almost at a break-even point and it is not expected to contribute significantly in the near future.

Development drilling for the 1979 programme (Madsen's interest 1.08% to 1.74%) resulted in five potential gas wells, two potential oil wells, two dry holes and one suspended well. At year end ten oil wells were on stream and over the year approximately \$1,000 revenue was received from this venture. Additional development in 1981 will be minimal and it is expected that this programme will be at least at a break-even point by the end of 1981.

The Zephyr 1980 programme funded the drilling of forty wells in 1980, seventeen potential gas wells, six potential oil and gas wells, four potential oil wells and thirteen dry holes. Madsen's interest in this programme is 1.865%. Development costs in 1981 will be significant but the programme should be paying for itself in 1982.

In summary, the Zephyr drilling programmes have been successful with respect to drilling success but they will not contribute substantially financially until more of the shut-in wells come on stream. It is not expected that this will happen for another two or three years.

Renaissance Resources Joint Venture

Madsen participated in the 1979 Renaissance Resources Limited Joint Venture (1.715%) and the 1980 Renaissance Resources Limited Joint Venture (.862%).

Renaissance completed a very successful year in 1980 with respect to both exploration and development drilling but again the financial success can only be judged two or three years from now.

Development drilling in the 1979 programme resulted in sixteen potential gas wells, one potential oil and gas well, one potential oil well, five dry holes and five wells with no results at the time of writing. Gas contracts are available for approximately 42% of the Joint Venture's net reserves as at July 1980 and wells subject to these contracts should be on stream in 1981.

The 1980 Joint Venture funded the drilling of forty-nine wells in 1980 resulting in thirty-three shut-in gas wells, one oil well, one potential oil well, one shut-in gas and potential oil well and thirteen dry holes. A considerable amount of development work for this joint venture is planned for 1981 so this programme will have a negative effect on cash flow in 1981.

Madsen has a comparatively small investment in the Renaissance Joint Ventures and although a good rate of return is expected in several years, it will not be as significant as our other oil and gas interests.

Sawtooth Project

The progress made in the Sawtooth Project in 1980 was much slower than expected. Two wells were drilled during the year and completed, one as a potential gas well and one as a potential oil well. The agreement is presently being rescheduled and it is believed that the Project will essentially be developed one year behind schedule.

While geological mapping was carried out, the Operator began acquisition of several leases which will be drilled in 1981. Drilling of five to ten wells is planned for 1981.

Other Oil and Gas Interests

Madsen acquired a 10.8% working interest in the Davis Prospect, Upton County, West Texas re-entry well from Silvermaque Mining Limited. Testing of the successful re-entry had not been completed by the time of writing.

Other Interests

Madsen maintained its interest in Baffinland Iron Mines during the year at 21%. Baffinland Iron Mines owns large iron deposits on Baffin Island. Although not yet under development, the deposits will have substantial future value.

Madsen has also maintained its interest in its land holdings in Saskatchewan, in 1980.

During the year Campbell Red Lake Mines Limited made an agreement with Lassie Red Lake Gold Mines Limited to do between \$100,000 and \$200,000 of exploration work on Lassie's property in Red Lake in return for shares in Lassie. Included in the agreement was a commitment of a minimum of 5,000 feet of surface diamond drilling. Madsen's 19.1% share in Lassie will be diluted to approximately 16.1% if Campbell performs the maximum amount of work.

At year end the Company's investments were approximately 70.6% in gold or gold oriented securities, 9.2% in foreign currencies, 14.4% in oil and gas and 5.8% other.

The Company will continue to increase its investment portfolio in the natural resource industry and will consider participation, either directly or through operating companies, in worthwhile ventures.

Respectfully submitted,

P. H. McCloskey,
President.

Toronto, Ontario,
March 17, 1981.

BALANCE SHEET

December 31, 1980

ASSETS

	1980	1979
CURRENT ASSETS		
Cash	\$ 30,371	
Short-term deposits	1,070,675	\$1,244,547
Accounts receivable	25,313	74,444
Marketable securities	1,856,786	1,579,618
(Market value \$7,043,832; 1979 \$4,117,817)		
	<u>2,983,145</u>	<u>2,898,609</u>
NOTE RECEIVABLE		199,775
SHARES IN COMPANIES, at cost		
Baffinland Iron Mines Limited		
714,493 (1979 714,493) shares	593,386	593,386
Other	1,251	1,251
	<u>594,637</u>	<u>594,637</u>
FIXED ASSETS		
Furniture and equipment	24,168	23,955
Accumulated depreciation	22,058	21,531
	<u>2,110</u>	<u>2,424</u>
MINING PROPERTIES		
Mining claims	26,953	26,953
Deferred exploration expenditure	17,817	24,251
	<u>44,770</u>	<u>51,204</u>
OIL AND GAS INTERESTS	1,447,121	893,823
	<u>\$5,071,783</u>	<u>\$4,640,472</u>

Approved by the Board:

P. H. McCLOSKEY, Director

FOSTER W. HEWITT, Director

MADSEN RED LAKE GOLD MINES, LIMITED

LIABILITIES

	1980	1979
CURRENT LIABILITIES		
Bank indebtedness (note 2)	\$ 303,090	\$ 16,833
Accounts payable	47,539	72,965
Income tax payable	4,115	
	<u>354,744</u>	<u>89,798</u>
DEFERRED INCOME TAXES	588,500	501,000
	<u>943,244</u>	<u>590,798</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL (note 3)	1,568,413	1,640,222
RETAINED EARNINGS	2,560,216	2,409,452
	<u>4,128,539</u>	<u>4,049,674</u>
	<u>\$5,071,783</u>	<u>\$4,640,472</u>

AUDITORS' REPORT

To the Shareholders,
Madsen Red Lake Gold Mines, Limited.

We have examined the balance sheet of Madsen Red Lake Gold Mines, Limited as at December 31, 1980, and the statements of retained earnings, earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1980, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
February 20, 1981.

JARRETT, GOOLD & ELLIOTT
Chartered Accountants

MADSEN RED LAKE GOLD MINES, LIMITED

STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1980

	1980	1979
Balance, beginning of year		
As previously reported	\$2,197,428	\$1,513,670
Retroactive change in accounting policy (note 6)	212,024	219,367
As restated	2,409,452	1,733,037
Net earnings	150,674	676,415
Balance, end of year	<u>\$2,560,126</u>	<u>\$2,409,452</u>

STATEMENT OF EARNINGS

for the year ended December 31, 1980

	1980	1979
Income		
Gas revenue	\$ 152,697	\$ 93,678
Production expenses and royalties	73,461	34,596
	79,236	59,082
Investment income	456,012	170,836
Gain on sale of marketable securities	9,048	858,697
	544,296	1,088,615
Expenses		
Administrative	231,817	153,738
Depletion and depreciation	30,805	20,962
	262,622	174,700
Earnings before income taxes	281,674	913,915
Income taxes — current	43,500	
— deferred	87,500	237,500
	131,000	237,500
Net earnings	<u>\$ 150,674</u>	<u>\$ 676,415</u>
Earnings per share (weighted average)	<u>\$.052</u>	<u>\$.247</u>

MADSEN RED LAKE GOLD MINES, LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended December 31, 1980

	1980	1979
SOURCE OF WORKING CAPITAL		
Operations		
Net earnings	\$ 150,674	\$ 676,415
Items not requiring an outlay of working capital		
Depreciation and depletion	30,805	20,962
Deferred income taxes	87,500	237,500
Outside exploration written off	8,839	
	277,818	934,877
Decrease in note receivable	199,775	
	477,593	934,877
APPLICATION OF WORKING CAPITAL		
Purchase of fixed assets	213	1,003
Outside exploration	2,405	2,168
Purchase of oil and gas interests	583,576	505,011
Purchase of 31,600 (1979 118,400) shares of share capital of Company	71,809	166,570
Purchase of shares of Baffinland Iron Mines Limited		11,107
	658,003	685,859
INCREASE (DECREASE) IN WORKING CAPITAL	(180,410)	249,018
WORKING CAPITAL, BEGINNING OF YEAR	2,808,811	2,559,793
WORKING CAPITAL, END OF YEAR	\$2,628,401	\$2,808,811
REPRESENTED BY		
Current assets	\$2,983,145	\$2,898,609
Current liabilities	354,744	89,798
Working capital	\$2,628,401	\$2,808,811

MADSEN RED LAKE GOLD MINES, LIMITED

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1980

1. Significant accounting policies

(a) *Marketable securities*

The Company carries its marketable securities at cost.

(b) *Shares in Baffinland Iron Mines Limited*

The Company carries its interest in Baffinland Iron Mines Limited, a company engaged in the exploration and development of an iron ore property, at cost. Realization of an income on or recovery of the cost of these shares is subject to the development and production in sufficient quantity of ore of economic value.

(c) *Fixed assets*

Fixed assets are stated at cost. Depreciation is provided over the estimated useful lives of the fixed assets on the diminishing-balance basis at an annual rate of 20%.

(d) *Mining properties*

The Company carries its mining claims at cost. The Company defers the cost of its exploration expenditure and carries it as an asset until the results of the projects are known. If a project is successful the related exploration expenditures are amortized over a period of years, pro rata to anticipated income. If the project is unsuccessful, the exploration expenditure and mining claims are written off.

(e) *Oil and gas interests*

The Company defers the cost of its oil and gas interests and carries them as an asset until the results of the projects are known. If a project is successful the related expenditure is amortized over a period of years, pro rata to anticipated income. If the project is unsuccessful the expenditure is written off.

(f) *Income taxes*

The Company uses the tax allocation method of accounting for taxes on income. Under this method, timing differences between reported income and taxable income result in deferred income taxes. Deferred income taxes arise mainly from the claiming of a reserve against unrealized gain on foreign exchange and the claiming of exploration expenses in excess of amounts written off oil and gas interests.

(g) *Foreign currency translation*

Marketable securities, long-term assets and long-term liabilities are translated at the approximate exchange rates at the time of acquisition. Other current assets and current liabilities are translated into Canadian dollars at the approximate exchange rate at December 31, 1980.

Revenues and expenses have been translated at rates prevailing during the year.

2. Bank indebtedness

The bank indebtedness is secured by pledge of certain marketable securities.

3. Share capital

The share capital of the Company consists of:

Authorized

5,500,000 shares of no par value

		1980	
Issued		Shares	Consideration
Balance, beginning of year		3,556,196	\$2,144,035
Purchased by the Company			
Balance, January 1		648,400	503,813
Purchased during year			
April 22	\$1.65	1,600	2,637
August 26	2.06	5,000	10,285
August 28	2.06	1,000	2,060
September 12	2.24	11,000	24,651
October 5	2.78	500	1,390
October 5	2.73	1,000	2,730
October 27	2.78	4,000	11,107
December 12	2.52	2,000	5,047
December 19	2.16	5,500	11,902
		31,600	71,809
Balance December 31		680,000	575,622
Balance, end of year		\$2,876,196	\$1,568,413

4. Statutory information

The aggregate direct remuneration paid to directors and senior officers (as defined in the Business Corporations Act, Ontario), was \$52,586 (\$48,904 in 1979).

5. Values

The costs of mining claims, deferred exploration expenditures and oil and gas interests do not necessarily reflect present or future values.

6. Change in accounting policy

During 1980 the Company adopted the policy of recording its foreign currency term deposits at market value at the approximate year-end exchange rates. In prior years the Company carried those term deposits at cost at the approximate exchange rates at the time of acquisition.

MADSEN RED LAKE GOLD MINES, LIMITED

INFORMATION CIRCULAR FOR ANNUAL AND GENERAL MEETING OF SHAREHOLDERS to be held May 19, 1981

This Information Circular accompanies the Notice of the Annual and General Meeting of Shareholders of the Corporation to be held May 19, 1981, and is furnished in connection with the solicitation of proxies by management of the Corporation, for use at said meeting. The solicitation will be primarily by mail, but proxies may also be solicited by regular employees of the Corporation. The cost of solicitation by management will be borne by the Corporation.

The persons named in the enclosed form of proxy are directors of the Corporation. IF, HOWEVER, A SHAREHOLDER DESIRES TO APPOINT SOME OTHER PERSON (WHO NEED NOT BE A SHAREHOLDER) TO REPRESENT HIM AT THE MEETING OTHER THAN THOSE DESIGNATED IN THE FORM OF PROXY, HE MAY DO SO BY INSERTING SUCH OTHER PERSON'S NAME IN THE BLANK SPACE PROVIDED IN THE FORM OF PROXY OR BY COMPLETING ANOTHER FORM OF PROXY.

A shareholder who has given a proxy may revoke it at any time prior to its use either (a) by signing a proxy bearing a later date and delivering it to the Secretary of the Corporation, or (b) by signing written notice of revocation and delivering it to the Secretary of the Corporation or the Chairman of the Annual and General Meeting.

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed nominees, subject to the provisions of section 121 of The Business Corporations Act. The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting, and with respect to other matters which may properly come before the meeting.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

There are 3,556,196 shares without par value of the Corporation outstanding and shareholders of record at the time of the meeting are entitled to one vote for each share held, at such meeting and at any adjournment thereof. The directors and senior officers of the Corporation have been informed that Paul H. McCloskey beneficially owns directly or indirectly 1,143,418 shares of the Corporation, being approximately 32.15% of the outstanding shares of the Corporation. Only shareholders of record on May 19, 1981, are entitled to vote thereat. By authority of a resolution of the directors of the Corporation, those shareholders desiring to be represented at the meeting by a nominee must deposit their proxies with the Secretary of the Corporation, or its transfer agent, Guaranty Trust Company of Canada, 88 University Avenue, Toronto, Ontario, M5J 1T8, at least 48 hours preceding the time of the meeting.

ELECTION OF DIRECTORS

The management of the Corporation proposes to nominate the persons listed below for election as directors of the Corporation to serve until the next annual meeting or until their successors are elected or appointed. All such proposed nominees are now directors of the Corporation and have been since the dates indicated, except Helen P. McCloskey, who is proposed to be elected a director if the Special Resolution creating one additional director is duly passed and confirmed. IT IS THE INTENTION OF THE PERSONS NAMED IN THE ENCLOSED FORM OF PROXY TO VOTE FOR THE ELECTION OF THE PROPOSED NOMINEES AS

DIRECTORS. If any of such nominees should be unable to serve as a director for any unforeseen reason, the persons named in the enclosed form of proxy reserve the right to vote for another nominee, in their discretion.

Name and Office held with the Corporation	Principal Occupation	Became a Director of the Corporation	Number of shares beneficially owned of the Corporation directly or indirectly (1)
Paul H. McCloskey, President	President of the Corporation	Since 1963	34,500 (2)
R. Duncan McCloskey, Executive Vice-President	Executive Vice-President of the Corporation	Since 1975	125,000
Foster W. Hewitt, Vice-President	Radio Executive	Since 1967	1,500 (4)
Hugh H. Mackay	Vice-President, Maritime Beverages Limited, Soft-drink distributor, formerly an officer of Pitfield, Mackay & Ross Limited (Investment Dealers)	Since 1958	1 (5)
A. D. Hellens	Mining Executive	Since 1973	15,000 (3)
Helen P. McCloskey	Married Woman		32,800

- (1) The number of shares owned, as shown above, are as reported by the respective nominees.
- (2) Paul H. McCloskey reports that his associates (as that term is defined in The Business Corporations Act) beneficially owned directly or indirectly 1,108,918 shares of the Corporation. The Estate of H. C. McCloskey, Matachewan Consolidated Mines, Limited, Boanne Investments Limited and Rock Realty and Investments, Limited are the only associates of Paul H. McCloskey whose shareholdings are substantial.
- (3) A. D. Hellens reports that his associates (as that term is defined in The Business Corporations Act) beneficially owned directly or indirectly 36,000 shares of the Corporation. Temco Mines, Limited is the only associate of A. D. Hellens whose shareholdings are substantial.
- (4) Foster W. Hewitt reports that his associates (as that term is defined in The Business Corporations Act) beneficially owned directly or indirectly 50,000 shares of the Corporation. Hewittdale Productions Limited is the only associate of Foster W. Hewitt whose shareholdings are substantial.
- (5) Hugh H. Mackay reports that his associates (as that term is defined in The Business Corporations Act) beneficially owned directly or indirectly 18,250 shares of the Corporation. Strathnaver Limited is the only associate of Hugh H. Mackay whose shareholdings are substantial.

REMUNERATION OF MANAGEMENT AND OTHERS

The aggregate direct remuneration paid or payable by the Corporation to the directors and senior officers of the Corporation (including the five highest paid employees) during the Corporation's last completed financial year was:

Directors as such	\$ 4,750
Senior officers	\$47,836
Total	<u>\$52,586</u>

ALTERATION OF CAPITAL

By Special Resolution of the Directors passed March 17, 1981, the Corporation was authorized to alter its authorized capital as described below. This Special Resolution must be confirmed by an affirmative vote of at least two-thirds of the votes cast at the meeting.

At present the authorized capital of the Corporation consists of 5,500,000 shares without par value of

**THIS IS SCHEDULE "C" TO THE INFORMATION CIRCULAR OF
MADSEN RED LAKE GOLD MINES, LIMITED**

MADSEN RED LAKE GOLD MINES, LIMITED

BY-LAW NUMBER 85

**A BY-LAW CHANGING THE NUMBER AND QUORUM OF DIRECTORS OF
MADSEN RED LAKE GOLD MINES, LIMITED**

BE IT ENACTED AS A SPECIAL BY-LAW of the Corporation as follows:

1. The number of directors of the Corporation is hereby increased from five to six so that the board of directors of the Corporation shall hereafter be composed of six directors.
2. Three directors shall constitute a quorum at any meeting of the board of directors.
3. All prior by-laws, resolutions and proceedings of the Corporation inconsistent herewith are hereby amended, modified, ratified and confirmed in order to give effect of this By-law.

PASSED by the Board of Directors this 17th day of March, 1981.

Corporate Seal

S. CZARNECKI
SECRETARY

PAUL H. McCLOSKEY
PRESIDENT

which 3,556,196 are issued and outstanding. The Articles of Amendment would redesignate the issued and unissued shares as common shares and would create 5,000,000 Class A special shares and 2,000,000 Class B special shares, each without par value, and issuable in series.

The Class A special shares and the common shares are entitled to one vote per share and the Class B special shares are entitled to five votes per share. Class A special shares and the common shares share equally as to dividends and each Class B special share is entitled to a dividend in the amount of one-fifth of any dividends declared on each Class A special share and common share.

All classes of shares rank equally as to return of capital and any declared and unpaid dividends upon liquidation, dissolution and winding-up of the Corporation, but Class A special shares and Class B special shares are not entitled to participate any further in any distribution of the property and assets of the Corporation. The Class A special shares and Class B special shares are issuable in series and, subject to voting, dividends and return of capital rights, stated above, the Directors are entitled to fix the number of shares and determine the designations, preferences, rights, priorities, restrictions, conditions, limitations and prohibitions attaching to each series at the time the shares of such series are issued.

The Board of Directors believe that this alteration in share capital is advisable as the flexibility thereby created will facilitate the Corporation in acquiring mining and/or oil and gas properties for shares and in raising the capital necessary to finance the future operations of the Corporation.

The Special Resolution passed by the Directors on March 17, 1981 is attached hereto as Schedule "A".

CHANGING THE NAME OF THE CORPORATION TO McCHIP RESOURCES INC.

The Directors of the Corporation passed a Special Resolution March 17, 1981 authorizing the Corporation to change its name to McChip Resources Inc. This Special Resolution must be confirmed by an affirmative vote of at least two-thirds of the votes cast at the meeting. The Special Resolution passed by the directors March 17, 1981 is attached hereto as Schedule "B" hereto.

CHANGING THE NUMBER AND THE QUORUM OF THE BOARD OF DIRECTORS

The Directors of the Corporation passed a Special By-law Number 85 of the Corporation changing the number of Directors of the Corporation from five to six directors and constituting three directors a quorum at any meeting of the board of directors.

This Special By-law must be confirmed by an affirmative vote of at least two-thirds of the votes cast at the Meeting. Special By-law Number 85 passed by the directors is attached hereto as Schedule "C" hereto.

APPOINTMENT OF AUDITORS

THE PERSONS NAMED IN THE ENCLOSED FORM OF PROXY INTEND TO VOTE FOR THE REAPPOINTMENT OF PRICE WATERHOUSE & CO., CHARTERED ACCOUNTANTS, TORONTO, AS AUDITORS OF THE CORPORATION, to hold office until the next Annual Meeting of Shareholders. Messrs. PRICE WATERHOUSE & CO. and their predecessor firms, have been auditors of the Corporation for more than five years.

WHERE A SHAREHOLDER DOES NOT SPECIFY A CHOICE AS TO THE SAID SPECIAL RESOLUTIONS OR SAID SPECIAL BY-LAW IN THE ENCLOSED FORM OF PROXY, THE PERSONS NAMED IN THE ENCLOSED FORM OF PROXY WILL VOTE IN FAVOUR OF THE SPECIAL RESOLUTIONS AND THE SPECIAL BY-LAW.

OTHER BUSINESS

Management of the Corporation knows of no matters to come before the meeting other than matters referred to in the Notice of Meeting. However, if matters not known to the management should come before the meeting, shares represented by proxies solicited by management will be voted on each such matter in accordance with the best judgment of the nominees voting same.

TORONTO, Ontario,
April 10, 1981.

**THIS IS SCHEDULE "A" TO THE INFORMATION CIRCULAR OF
MADSEN RED LAKE GOLD MINES, LIMITED**

MADSEN RED LAKE GOLD MINES, LIMITED

**SPECIAL RESOLUTION AUTHORIZING ARTICLES OF AMENDMENT
ALTERING THE AUTHORIZED CAPITAL OF THE CORPORATION**

BE IT RESOLVED as a Special Resolution of the Corporation that The Articles of the Corporation be amended to provide that the authorized capital of the Corporation, now consisting of 5,500,000 shares without par value of which 3,556,196 are issued and outstanding as fully paid and non-assessable, be altered by (i) redesignating the existing issued and unissued shares as common shares and (ii) creating 5,000,000 Class A special shares and 2,000,000 Class B special shares, each without par value and issuable in series.

The Class A special shares and the common shares are entitled to one vote per share and the Class B special shares are entitled to five votes per share. Class A special shares and the common shares share equally as to dividends and each Class B special share is entitled to a dividend in the amount of one-fifth of any dividends declared on each Class A special share and common share. All classes of shares rank equally as to return of capital and any declared and unpaid dividends upon liquidation, dissolution and winding-up of the Corporation, but Class A special shares and Class B special shares are not entitled to participate any further in any distribution of the property and assets of the Corporation. The Class A special shares and Class B special shares are issuable in series and, subject to voting, dividends and return of capital rights, stated above, the Directors are entitled to fix the number of shares and determine the designations, preferences, rights, priorities, restrictions, conditions, limitations and prohibitions attaching to each series at the time the shares of such series are issued.

**THIS IS SCHEDULE "B" TO THE INFORMATION CIRCULAR OF
MADSEN RED LAKE GOLD MINES, LIMITED**

MADSEN RED LAKE GOLD MINES, LIMITED

**SPECIAL RESOLUTION
AUTHORIZING THE CHANGE IN THE NAME OF THE CORPORATION TO
McCHIP RESOURCES INC.**

BE IT RESOLVED AS A SPECIAL RESOLUTION THAT the Articles of the Corporation are hereby amended to change the name of the Corporation to McChip Resources Inc.

